

# Office of Inspector General

Semiannual Report  
to the Congress

April 1, 1990  
through  
September 30, 1990



## Farm Credit Administration

Office of Inspector General  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090  
(703) 883-4030



October 31, 1990

The Honorable Harold B. Steele  
Chairman of the Board and  
Chief Executive Officer  
Farm Credit Administration  
McLean, Virginia

Dear Mr. Steele:

This is the third semiannual report on the activities of the Office of Inspector General (OIG) since the office was created on January 22, 1989. This report covers the period from April 1, 1990 through September 30, 1990 and is submitted in accordance with the Inspector General Act of 1978, as amended in 1988. The Act requires that you submit this report to the Director of the Office of Management and Budget and the appropriate congressional committees and subcommittees within 30 days, along with any comments you may wish to make.

We have made significant strides in OIG this period in establishing and refining the policies, procedures and practices necessary for an effective operation, and the benefits of these improvements should be apparent in work products of OIG as we move forward.

I appreciate your support and cooperation and look forward to continued progress together.

Respectfully,

A handwritten signature in cursive script that reads 'Eldon W. Stoehr'.

Eldon W. Stoehr  
Inspector General

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## INTRODUCTION

The Farm Credit Administration (FCA) is an independent Federal agency of the U.S. Government responsible for the regulation, examination and supervision of institutions chartered under the Farm Credit Act of 1971. FCA is a non-appropriated agency with a spending limitation of \$36,120,000 for FY 1990. During this year, FCA's staffing level was approximately 500; about half of whom were examiners stationed at 11 field offices throughout the country. Appendix II displays the current organizational structure of FCA and the Office of Inspector General (OIG) within that structure.

FCA is a "designated Federal entity" within the meaning of the Inspector General Act of 1978, as amended (Act). The Inspector General is appointed by the Chairman of the FCA Board.

Progress towards full development of the OIG continued during this third semiannual reporting period and included:

- Policies and procedures for OIG audit followup activities were developed and issued in final, written form.
- An automated system was developed and implemented for tracking and reporting management's implementation of audit recommendations.
- The collective proficiency of OIG staff was expanded. A program analyst (program auditor) was recruited to provide the expertise necessary for OIG to evaluate the effectiveness of agency programs and to review existing and proposed legislation and regulations. Additionally, a position has been developed for a management analyst (management auditor) to evaluate the efficiency of agency operations.
- The recommendations contained in an external evaluation of this office during the preceding reporting period have been implemented, specifically:
  - A hotline was installed to facilitate the reporting of known or suspected incidences of fraud, waste or abuse.
  - The planned audit activities of OIG have been extended to include the evaluation of FCA's success in dealing with the problems and potential problems in the Farm Credit System.

- We have revised the OIG charter to comply with the suggestion that OIG's access to records available to the agency and its role in the coordination of activities to promote economy and efficiency and the prevention of fraud and abuse should be expanded outside of the perimeter of the FCA in accordance with the Act and the legislative intent.
- We have communicated information to FCA personnel to enhance their awareness about OIG's authorities and responsibilities.

### AUDIT REPORTS ISSUED

Audits are conducted in accordance with audit standards established by the Comptroller General of the United States for audits of Federal organizations, programs, activities and functions.

Three final audit reports that were issued during this reporting period are summarized below:

- 1) FCA's Accounting System. This audit evaluated the entirely new accounting system the agency installed on October 1, 1989. The report concluded that the basic processes in place were reliable but that much additional development was required before the system would be complete. We recommended that a Chief Financial Officer be established to provide the expertise and priority necessary to bring FCA's accounting, budgeting and reporting processes to an acceptable level.
- 2) FCA's Security. This evaluation addressed agency security over property, information and staff safety with an emphasis on the agency's treatment of sensitive information. We concluded that there is reasonable compliance with applicable standards but several recommendations for improvements were made. We also recommended that management emphasize and enforce prohibitions against unauthorized disclosure of sensitive information.
- 3) FCA's Audit Followup System. Our evaluation concluded that existing policies and procedures in this area were adequate but that management practices had been deficient. A new audit followup official has recently been appointed and has taken the necessary steps to cure the deficiencies of previous practice. We recommended that the CEO manage this process to maintain acceptable audit followup practices by management.

Section 4(b)(1) of the Act provides that the OIG take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General. Consistent with this provision, we made an evaluation of an external audit of the processing and payment of FCA employee claims by the provider under FCA's health benefit plan. The contract for this audit was arranged prior to the the creation of OIG at FCA. We identified a number of minor, technical deficiencies in the procurement of this audit service and the audit report itself. We have drafted a policy and procedure document for the agency's procurement of audit services which, when implemented, should avoid the recurrence of such deficiencies in future engagements.

### AUDIT RESOLUTION

Management decisions have been made on all 31 recommendations contained in the three reports summarized above; however, management's decision was to defer a specific course of action until a later date on the following two OIG recommendations that were opposed by office management:

- 1) Create a chief financial officer, reporting directly to the CEO, with responsibility for all financial accounting, budgeting and reporting by the agency.
- 2) Transfer the payroll function from the Human Resources Division to the Fiscal Resources Division.

Our last (second) semiannual report identified one significant weakness that involved FCA's accounting system and property controls. OIG evaluated the new accounting system installed by management at the beginning of FY 1990 and found the core systems reliable but that much additional development was required before the installation would be complete. There has been very little additional development during this reporting period with the exception of some documentation and training on the system as it was installed on October 1, 1989. Further, there has been no progress in developing the property management system that management originally committed to implementing by October 1989. This recent lack of progress in developing these systems and the deferment in choosing a specific course of action on the recommendations noted above, mitigate the prompt resolution of fundamental weaknesses.

## **INVESTIGATION OF MATTERS INVOLVING FCA PERSONNEL, PROGRAMS AND OPERATIONS**

The OIG initiated eight new investigations during this reporting period. A preliminary review of two of these new matters resulted in closing the investigation because we determined that the allegations were either unfounded or because there was insufficient information to pursue. Two other investigations, one initiated in the first semiannual reporting period and one initiated during the second semiannual reporting period, were closed. The remaining six investigations are in progress as are two investigations initiated during previous reporting periods. One open investigation is a joint investigation with another Federal law enforcement agency.

The nature of the preliminary investigations conducted during this period is summarized below in accordance with 8E(h)(2)(C) of the Act:

- a) Two separate allegations involved FCA personnel believed to be abusing agency security concerning the release of documents and abuse of travel funds. One case was closed due to the lack of support for the allegation and the other is still in the fact gathering stage.
- b) Six separate cases involve allegations of deficiencies in agency programs. In some of these cases, the OIG has requested FCA field examiners to assist by supplying documents from regulated institutions so that the issue can be further explored. OIG then reviews these documents and also analyzes the examiners' treatment of the issues and the complainants' claims.

No investigations have been referred, to date, to the Department of Justice for prosecutorial consideration.

## **REVIEW OF PROPOSED LEGISLATION AND REGULATIONS**

The Inspector General, through the Coordinating Conference of the President's Council on Integrity and Efficiency, and the Counsel to the Inspector General, through the Council of Counsels to the Inspectors General, have had an ongoing opportunity to initiate and review legislation of concern to the Inspector General community. Comments are periodically gathered and assimilated through these organizations.

The OIG actively reviews all legislation that directly concerns the FCA and reviews with interest those legislative proposals concerning the banking regulatory, agricultural and inspectors general community.

The Counsel to the Inspector General reviewed all proposed and final regulations on which action was taken within FCA. Regulatory activity has been limited by vacancies on the three member FCA Board. During the past 4-1/2 years, the FCA has had a full Board less than half the time and has been without a quorum for 9 months of that time. The FCA Board is once again without a quorum at the date of this report.

An OIG audit recommendation caused an agency task force to be established on August 17, 1990 to review and evaluate the existing priority of claims regulations pertaining to Farm Credit System institutions in receivership (12 CFR 611.1167 and 1174). The OIG will follow up on this activity just as it does on all other audit recommendations.

**AUDIT REPORTS ISSUED BY FCA OIG**  
April 1, 1990 to September 30, 1990

Reports	Questioned Costs	Recommendations That Funds Be Put To Better Use
FCA's Accounting System June 27, 1990	0	0
FCA's Security July 16, 1990	0	0
FCA's Audit Followup System September 20, 1990	<u>0</u>	<u>0</u>
Total (3 Reports)	<u>0</u>	<u>0</u>

**INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS**

	<u>Number</u>	<u>Dollar Value</u> (in thousands)	
		<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>2</u>	<u>0</u>	<u>0</u>
B. Which were issued during the reporting period	<u>3</u>	<u>0</u>	<u>0</u>
Subtotals (A + B)	<u>5</u>	<u>0</u>	<u>0</u>
C. For which a management decision was made during the reporting period	<u>5</u>	<u>0</u>	<u>0</u>
i) dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>0</u>
ii) dollar value of costs not disallowed	<u>0</u>	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>0</u>

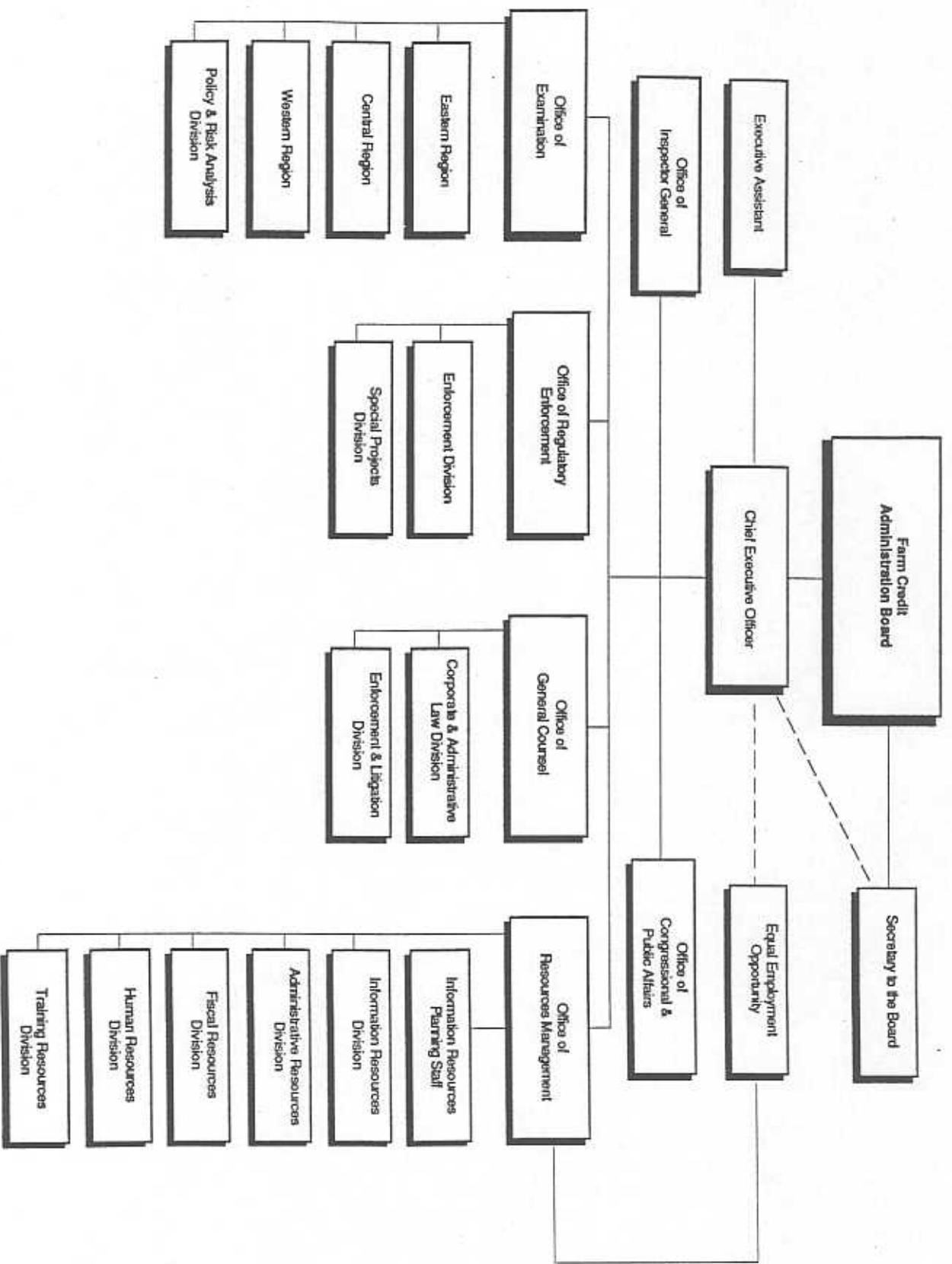
**INSPECTOR GENERAL ISSUED REPORTS  
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>Number</u>	<u>Dollar Value</u> (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	<u>2</u>	<u>0</u>
B. Which were issued during the reporting period	<u>3</u>	<u>0</u>
Subtotals (A + B)	<u>5</u>	<u>0</u>
C. For which a management decision was made during the reporting period	<u>5</u>	<u>0</u>
i) dollar value of disallowed costs	<u>0</u>	<u>0</u>
ii) dollar value of costs not disallowed	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>

*Lawrence S. Steel*

Chairman  
October 1, 1990

# Farm Credit Administration



*Eldon W. Stoehr*

Eldon W. Stoehr, Inspector General  
October 25, 1990

Farm Credit Administration  
**Office of Inspector General**

